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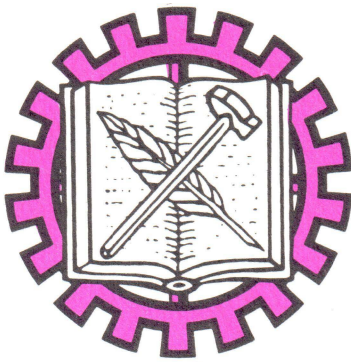
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# The Entrepreneur

The Belden Center for Private Enterprise Education  
Harding University School of Business  
Searcy, Arkansas

## GOOD BUSINESS IS GOOD BUSINESS

### Director Receives National Award

Harding University Economics Professor, Dr. Don Diffine, has received the First Annual Distinguished Scholar Award from the Association of Private Enterprise Education, which conducted its annual meeting in Cleveland, Ohio, April 24-26.

Dr. Diffine was nominated last fall by Harding's President, Dr. David Burks. Over the past decade, Dr. Diffine has tailored the programs of the Harding University Belden Center for Private Enterprise Education to develop projects which enrich, dramatize and simplify explanations of the idea of freedom applied to the marketplace.

In presenting the award to Dr. Diffine, the Board of Directors of the Association of Private Enterprise Education acknowledged Diffine as "a national leader in the area of Private Enterprise Education and for being in the vanguard of national leaders who are trying to keep private enterprise in business."

Listed in the **Heritage Foundation's Guide to Public Policy Experts**, Dr. Diffine is the author of the 200-page **Facts Book for Business and Industry — Individuals and Families** and compiler of the **American Incentive System Calendar — A Daily Chronicle of Enterprise**. He has been frequently published in **The Journal of Private Enterprise**.

According to Diffine, his work is "to provide a focus — almost a rallying point — for opinion leaders who share our deep commitment in a system of economic, political and intellectual freedom; and in so doing, to harness the tremendous potential which flows through our constituency . . . Hopefully, if we all continue to do our part, the day will never come when it will be a misnomer to call our enterprise system 'free.' "

## Check it Out — That's the Wal-Mart Way

by  
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*Editor's Note: This is Part IV of a four-part commemorative series saluting Wal-Mart Stores, Inc., and especially its people, for their 25th Anniversary. Part I introduced the series and described in detail the following chapters: (1) "The Total Commitment Role Model — Mr. Sam" and (2) "Wal-Mart Means Business — Among Other Things."*

*Part II included the following chapters: (3) "Providing a Quarter Century of Value," (4) "How Does Wal-Mart Do It?" and (5) Customer Service — What's Important is YOU!"*

*Part III included the following chapters: (6) "Associates — People Trained and Dedicated to Saving the Customer Time and Money" and 7) "Community Service — The Rent Associates Pay for the Space They Occupy."*

*This issue includes the following chapters: (8) "Buy American — Keep Us Strong and Working," (9) "Sam's Wholesale Clubs, Hyper-Mart USA Centers, and Systems — On the Leading Edge," and (10) "Summary — Free Enterprise Delivers the Goods at Wal-Mart."*



### VIII. Buy American — Keep Us Strong and Working

Mr. Walton, who has voiced great concern over our economy's historically high balance of trade deficits and the intended loss of jobs and wealth flowing out of country, is strongly pushing a "Buy American" campaign.

This writer is reminded of Edmund Burke, who wrote long ago, "How often has public calamity been arrested on the very brink of ruin by the seasonable energy of a single man?"

Indeed, late in 1984, Mr. Walton gave merchandise managers of his company not only a new philosophy, but a mandate: "Find products that American manufacturers have stopped producing because they couldn't compete with foreign imports."

Mr. Walton not only urged his people to "Buy American," he invited other retailers to get with the program.

The "Buy American" campaign represents a rather well-defined extension of Chairman Walton's philosophy as it was communicated to his suppliers:

Our Wal-Mart company's committed to the philosophy of buying everything possible from suppliers who manufacture their products in the United States.

We are convinced that with proper planning and cooperation, many products can be supplied to us that are comparable, or better in value or quality than those we have been buying off-shore.

Mr. Walton believes that retailers can be equal opportunity purchasers while still offering customers good quality in a price range which will not squeeze overall profit margins.

Although he is an avid free-trader, Mr. Walton and his executives are willing to work with American manufacturers, to help them achieve the price and quality combination that could put them back into the ball game.

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*The American Republic and American Business are Siamese Twins; they came out of the same womb at the same time; they are born in the same principles and when American business dies, the American Republic will die, and when the American Republic dies, American business will die.*

— Josiah Bailey

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Essentially the "Buy American" plan gives American manufacturers the same terms and cooperation that are currently extended by Wal-Mart to foreign manufacturers.

This does not make work any easier for Wal-Mart, however. It involves aid to domestic manufacturers, so that products can be produced to specification, and it means providing vendors with longer lead time.

Beyond that, the "Buy American" effort also involves Wal-Mart's teaming up with its vendors to tighten quality controls. In some cases, it goes to the extent of supplying domestic letters of credit.

What is at stake? The "All-American Savings" promotional program says it best: "Wal-Mart — keeping America working and strong." At store #157 in Searcy, Arkansas, Manager Bart Sherwood puts it this way, "The intent of the program is to show customers that Wal-Mart wholeheartedly supports buying American-made products which represent quality at a value."

In Wal-Mart's enlightened self-interest, customers are being created at the same time that jobs are being developed in rural America.

Although such an approach may seem to defy the conventional wisdom of free-trade economics, it is not written in the stars that we have to continue to lose markets to overseas manufacturers. Nor is it a foregone conclusion that their quality has to be better than ours.

Each pricing situation is judged by Wal-Mart on its own merits and, of course, the overriding consideration will continue to be the need for Wal-Mart to remain competitive in its 24-state market.

It is a complicated process that involves lead time, payment terms, guaranteed orders and more than the usual amount of paperwork.

Also of importance is the fact that Mr. Walton expressed a willingness on the part of Wal-Mart to pay a little more in some cases for goods manufactured in the USA and accept a reduced markup that Wal-Mart puts on those goods.

However, Mr. Walton did not say that his company would pay significantly more and endanger the company's distinctive market niche as a discount store.

Mr. Walton has provided his personal philosophy on the matter, "Wal-Mart believes that our American workers can make the difference, if management provides the leadership."

Mr. Walton has put his manufacturers on notice that they will have to make an equal commitment:

In turn, our American suppliers must commit to improving their facilities and machinery, remain financially conservative and work to fill our requirements, and most importantly, strive to improve employee productivity ...



... This means that American producers will have to be more "market driven" instead of continuing to be traditionally "product driven".

To date, more than \$1,250,000,000 worth of goods have been converted from off-shore sources to domestic services, saving an estimated 30,000 American jobs. Consider briefly the far-reaching impact of jobs in the American economy.

According to a recent U.S. Chamber of Commerce study, here is a breakdown of the gains that even 100 new manufacturing jobs provide a given community:

Aggregate personal income - \$1,948,353; New retail establishments - 7; Non-manufacturing jobs - 64; Population increase - 202; Family units - 102; School enrollment - 61; and Retail sales - \$1,477,453.

Imagine the equivalent of that occurring in 250 communities around the Wal-Mart world! Surely, what is good for people is also good for business. That's the Wal-Mart way.

The above projections represent a net gain, allowing adjustments for some economic factors that cannot be fully quantifiable. Nevertheless, as people move into an area, they need the services provided by the community in such areas as housing, transportation, food, clothing, government services and leisure time services.

If freedom means anything, it means the right to choose; and in so doing, we create for ourselves the alternatives of choice. Customers and manufacturers alike have become interested in the "Buy American" campaign because it offers nothing less than a renaissance of products that could be competitively manufactured in the United States.

As the lyrics of that song go, "... if this is flag-waving, do you know of a better flag to wave?"

### **IX. Sam's Wholesale Clubs, Hypermart USA Centers, and Systems — On the Leading Edge**

Starting with three units in 1983, there are presently 87 Sam's Wholesale Clubs in operation. These membership wholesale club business outlets are typically 100,000 squarefoot, no frills, cash-and-carry, general merchandise warehouses in larger metropolitan markets.

Sam's Wholesale Clubs generally target small business customers who typically do not have the buying power to make volume purchases at low prices.

Unlike some other wholesale clubs, Sam's Wholesale Club does well, due to its close affiliation with Wal-Mart. This was further evidenced in June, 1987, when Sam's Wholesale Club agreed to purchase 22 SuperSaver outlets.

Specifically, Sam's Wholesale Clubs have prospered from the strong financial base and merchandising expertise of Wal-Mart. The savvy that Wal-Mart has been able to develop over the years in the area of discount store operations has been put to keen advantage in the Sam's Wholesale Clubs.

There are certainly some differences between Wal-Mart stores and Sam's Wholesale Clubs. Wal-Mart is open to the public, while Sam's caters only to members.

There is also very little overlap between Sam's and Wal-Mart's merchandise, and Sam's sells most of its goods in bulk sizes. Businesses typically pay a \$25 membership fee. Group members, such as employees of schools, governments, etc., can join at no charge and pay a five percent surcharge over posted prices.

With lower average gross margins than Wal-Mart stores, Sam's Wholesale Clubs can typically undersell local durable goods distributors, supermarkets and general merchandise discounters.

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*The reason a lot of people do not recognize an opportunity when they meet it is that it usually goes around wearing overalls and looking like hard work.*

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A half century ago, Americans spent much of their weekends shopping in diverse stores at different locations: a dry goods store, a grocery store, a fruit and vegetable market, a hardware store, a drugstore, etc.

Prices were high, and variety was limited; it was expensive and inconvenient. Today, thanks to the lead Wal-Mart is taking with some monumental advances in retailing productivity, all that is changing.

This year, Wal-Mart opened two new Hypermart USA centers in Topeka, Kansas, and Dallas, Texas, markets.

The first fully Americanized Hypermart to provide one-stop shopping convenience under one roof, the Hypermart USA centers contain general merchandise and a full line, supersized grocery store augmented with service and fast food shops.

All merchandise is top quality at lowest discount prices. The Hypermart USA centers concept relies on high-volume turnover to offset the Hypermart USA centers' very low prices.

In line with Wal-Mart's long-stated policies, the Hypermart USA centers will not be undersold on everyday-priced merchandise within its trade territory.



The company continues a no-hassles, satisfaction-guaranteed policy. Top quality, name-brand merchandise is offered, along with fresh produce, meats and bakery goods. The Hypermart USA centers will consist of 25 percent grocery and 75 percent general merchandise.

Additionally, there will be health and beauty aids with a pharmacy, an expanded electronics department, a deli and bakery, a seafood shop and a full line of produce, frozen foods and dairy departments.

The new Hypermart USA centers will be over 220,000 square feet situated on an approximate 40-acre site with ample parking for customers. Fifty check stands will provide fast, friendly service.

Hypermart USA centers will provide a convenient play area for children while the customer shops, and merchandise will be bagged for the shopping. Convenient seating will be located throughout the store for customers' ease of shopping.

How large is 220,000 square feet? It is big enough to contain a football field, three tennis courts, an Olympic-sized swimming pool, a typical three-hole golf course, a baseball playing field and a basketball court.

As always, customers will find Hypermart USA centers a shopping experience complete with sales personnel and management who are highly trained and attentive to the customer's need.

How will Wal-Mart keep these new outlets supplied? Currently, 77 percent of the merchandise comes through the Wal-Mart distribution system. This system is essential to volume buying and maintaining high levels of in-stock with "just-in-time" deliveries.

According to Gary Redman, Manager of Wal-Mart's Distribution Center of the Year for four consecutive years, in Searcy, Arkansas, each of the 10 Distribution Centers, ranging from 650,000 square feet to over a million square feet, is capable of receiving or shipping in excess of 30 million cases a year. This is the equivalent of 100 trailers of merchandise received or shipped every working day.

Most centers operate two shifts, employ approximately 500 to 600 associates and serve about 150 Wal-Mart stores. Productivity, measured by cases of merchandise processed per man-hour, continues to improve.

Emphasizing safety, Wal-Mart's private fleet, operated by 1,000 drivers and 300 maintenance and support associates, drove in excess of 100 million miles this past year. For three consecutive years, the Wal-Mart fleet has been recognized as one of the safest carriers (public or private) in the nation.

These associates timely deliver from 3,500-4,000 loads a week. In addition to store deliveries, these units back-haul freight to Wal-Mart distribution centers and thereby significantly improve the cost efficiency of this system.

How does all this Wal-Mart efficiency relate to the economy in general? The facts are these: higher productivity holds down costs. Lower costs help build sales and profits. Greater sales and profits help expand markets.

Larger markets mean more jobs and great economies of large scale. People are prospered, the standard of living rises and both the private and public sectors are able to promote greater material betterment of our citizenry.

Conversely, low productivity will reverse all of the wonderful above-mentioned conditions. Pay your money, and take your choice.

So, Wal-Mart's excellent systems and high productivity combine for a low expense structure. This feeds the cycle that permits Wal-Mart to sell quality merchandise at the lowest price in town every day of the year.

## **SUMMARY**

### **Free Enterprise Delivers the Goods at Wal-Mart**

Wal-Mart leads the industry in growth rates and profitability. The company, with a record unparalleled in modern retailing, remains dedicated to a philosophy of continuing controlled, profitable growth.

The aggressive Wal-Mart store-opening program results from a well-defined strategy to dominate market areas and then expand gradually into adjoining markets. Wal-Mart's current and long-range plan is to open at least 120 new stores each year, while continuously upgrading and remodeling existing stores.

The well-known Salomon Brothers, Inc. firm, in their December, 1986, investment research on Wal-Mart, stated:

Wal-Mart has truly emerged as one of the nation's premier growth retailers. Its tremendous success in developing and expanding its discount stores, coupled with its dramatic entry into the rapidly growing membership wholesale club sector ...

... has positioned the company among the largest U.S. general merchandise retailers and taken it to the top of the industry's profitability and its growth rate charts ...

... We believe that significant market share opportunities remain in many of the states where Wal-Mart

has only begun to expand in the past several years, as well as in surrounding markets that the chain has not yet tapped.

The overriding theme of this publication has been **“GOOD BUSINESS IS GOOD BUSINESS: Check It Out — That’s the Wal-Mart Way.”**

Now we come full circle. This has been a story about people, Wal-Mart associate-partners in growth who have exhibited their continued loyalty and dedication to a philosophy of offering quality merchandise at the “lowest possible prices every day.”

People have been the foundation for 25 years; people are the driving force of Wal-Mart today. Is it an oversimplification for Wal-Mart to say, “Our people make the difference?” Not really.

The company’s dedication to a philosophy of continuing, controlled, profitable growth can be managed only by people, not programs nor systems, but the “right” people — Wal-Mart people — hard-working and enthusiastic, responsible and committed folks who make their communities a better place because of the lives they touch.

So, as Sam Walton has stated all along, the key is people. “The reason for our success is our people and the way that they are treated and the way that they feel about their company. The attitude of our associates is the thing that is different in our company, and they deserve the credit.”

To Mr. Walton, people have been the key that have unlocked countless doors and showered upon him, his customers and his associates the fruits of over 25 years of labor in building his highly successful Wal-Mart Stores, Inc.

As sincerely as this writer knows how to state it, it is a singular honor to pen this 25th Anniversary salute to Wal-Mart.

In the context of the Bicentennial celebration of our U.S. Constitution, the reader is reminded that the Constitution does not guarantee a full life, a long life, a prosperous life nor even a happy life. The U.S. Constitution merely guarantees the protection of life. We make of our lives what we will.

Finally, it was Robert Frost who said it so well: “All men are born free and equal — free at least in their right to be different. Some people want to homogenize society everywhere; I am against the homogenizers in art, politics, in every walk of life. I want the cream to rise.”

In that regard, Wal-Mart associates would be wonderful role models to help all of us to learn more about our American incentive system which can develop all the talents of all the people. Here, we are “free” to be anything we want if we have the “enterprise” to do it.

Let us, therefore, diligently press on and pursue that noble task. By working together, we can further appreciate and fulfill the American Dream, personified by Sam Walton and Wal-Mart.